

Message Text

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SUBJ: POLISH GOVERNMENT INTEREST IN LARGE WESTERN LOAN FOR
BALANCE-OF-PAYMENTS SUPPORT

REF: WARSAW 2704; BONN 5575

1. DURING A COURTESY CALL ON BANK HANDLOWY PRESIDENT MALESA
APRIL 13, THE AMBASSADOR BROUGHT UP THE PROBLEM OF POLAND'S HARD
CURRENCY INDEBTEDNESS AND ASKED WHETHER ANY FOREIGN BORROWING WAS
BEING UNDERTAKEN TO COVER BALANCE-OF-PAYMENT PROBLEMS.

2. BOTH MALESA AND HANDLOWY FIRST VICE PRESIDENT JAN WOLOSZYN,
WHO WAS ALSO PRESENT DURING THE CONVERSATION, SAID THAT ALL FOREIGN
LOANS POLAND HAS RECEIVED TO DATE HAVE BEEN STRICTLY FOR SPECIFIC
INDUSTRIAL DEVELOPMENT PROJECTS OR FOR MAJOR COMMODITY PURCHASES
SUCH AS GRAIN, STEEL, AND CHEMICALS. WOLOSZYN ADDED THAT "OF
COURSE, WE COULD MOVE EASIER IF WE HAD A PURELY FINANCIAL LOAN;
THIS TYPE OF LOAN WOULD BE MORE SATISFACTORY BECAUSE IT WOULD NOT
HAVE THE LIMITS PLACED ON US BY SHORT AND MEDIUM TERM CREDITS FOR
PROJECTS." WOLOSZYN STRESSED THAT POLAND'S FINANCIAL DIFFICULTIES
WILL BE GREATEST DURING 1978 AND 1979 AND THAT "THINGS WILL BE
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BETTER FOR US AFTER 1980".

3. ON APRIL 14 VISITING CHEMICAL BANK OFFICERS TOLD THE EMBASSY'S
E/C COUNSELOR THAT REPORTS OF POLISH FEELERS FOR A LARGE BALANCE-
OF-PAYMENT SUPPORT LOAN HAVE BEEN PREVALENT IN LONDON AND FRANKFURT
OVER THE PAST MONTH. THE CHEMICAL BANK OFFICERS AND SOME OF
THEIR BANKING COLLEAGUES THINK THE POLES WILL TRY TO GET BETWEEN

\$750 MILLION AND ONE BILLION, BUT THEY BELIEVE A TOP LIMIT OF \$750 MILLION IS REALISTIC AND THAT \$500 MILLION IS MOST LIKELY. THEY ALSO THINK POLISH SUCCESS WILL BE STRONGLY DEPENDENT ON WILLINGNESS TO ACCEPT A RELATIVELY HIGH SPREAD OVER LIBOR -- PERHAPS ONE AND ONE-HALF PERCENT OR HIGHER -- AND TO PROVIDE MORE DETAILED FINANCIAL INFORMATION THAN HAS BEEN RELEASED TO WESTERN BANKS SO FAR.

4. COMMENT: BASED ON THE INFORMATION IN PARA 3 AND THAT IN BONN 5575 WE THINK THE REMARKS MADE BY WOLOSZYN STOPPED JUST SHORT OF CONFIRMING WHAT NOW APPEARS TO BE A FAIRLY WELL ESTABLISHED FACT -- NAMELY, THAT THE POLES ARE QUIETLY LOOKING AROUND FOR A LARGE BUDGETARY LOAN IN 1978. SUCH A LOAN WILL, OF COURSE, REQUIRE CONSIDERABLE TIME AND SKILLFUL NEGOTIATION TO ARRANGE, GIVEN ITS SIZE AND POLAND'S PRESENT INDEBTEDNESS. WE ALSO CONCUR IN THE CHEMICAL BANK BELIEF THAT A HIGH INTEREST RATE AND THE RELEASE OF MORE FINANCIAL DATA (WHICH THE AMBASSADOR ALSO RAISED) WILL BE PREREQUISITES. BUT, ONCE THESE VARIOUS ADMINISTRATIVE, TECHNICAL, AND TO SOME EXTENT POLITICAL HURDLES ARE OVERCOME, WE BELIEVE CURRENT MARKET CONDITIONS AND, ESPECIALLY, THE HIGH LIQUIDITY WHICH WESTERN INTERNATIONAL BANKS NOW ENJOY COULD ENABLE THE POLES TO GET THEIR MONEY IN A RELATIVELY SHORT TIME.

5. ALTHOUGH WE HAVE NO EVIDENCE, WE ASSUME THE DECISION TO TRY TO OBTAIN THIS LOAN HAS HAD SOVIET CLEARANCE. IT WOULD BE VIEWED BY THE SOVIETS AS A GOOD REASON FOR INDEFINITE DELAY ON CONFIDENTIAL

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PROPOSALS THAT POLAND SHOULD JOIN THE INTERNATIONAL MONETARY FUND, AND IT WOULD FURTHER EASE THE PRESSURES ON THE USSR TO PROVIDE ECONOMIC AND FINANCIAL SUPPORT FOR POLAND, A VERY WEL-COME DEVELOPMENT FOR THE SOVIET GOVERNMENT (BETTER DEUTSCHE BANK AND MORGAN GUARANTEE THAN VNESHTRG BANK AND THE SOVIET MINISTRY OF FOREIGN TRADE*) END COMMENT.
SCHAUFEL

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